College Debt Survey: Students Don't Know What They're Getting Into

Richard Barrington | MoneyRates.com Senior Financial Analyst, CFA

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Why are students racking up so much debt for attending college?

A new student loan survey suggests one cause might be that students don't know what they're getting into when they start borrowing for college.

The amount of student loan debt college-age students expect to have is nowhere near as heavy as the reality they eventually face.

Examining this disconnect between perception and reality may be a key to understanding why student loan debt continues to balloon out of control.

More importantly, it may better prepare students for the debt burdens they will face and encourage them to learn how to make smart choices about student loan debt.

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College Debt Burdens Worse Than Expected

The poll asked people how much student loan debt they already have or expect to have by the time they finish school. Notably, the debt burdens older age groups faced were often larger than what college-age students expected.

In other words, the reality of college debt often turns out to be worse than anticipated. Here are two examples:

- Just 14% of 18- to 24-year-olds expect to owe more than $30,000 in student loan debt, but 24% of both the 25-to-34 and the 35-to-44 age groups face that level of debt.
- Just 6.5% of 18- to 24-year-olds expect their student loan debt will eventually exceed $70,000. But for the 25- to 34-year-old age group, 10.14% expect to end up with that much debt. The number rises to 13.26% for the 35- to 44-year-old group.

  This suggests that twice as many people end up with over $70,000 in student loan debt as originally they expect.

Even with all the publicity in recent years about student loan debt, younger students still don't seem to anticipate the level of student loan debt that older age groups end up with.

>> When Student Loans Become your Mid-life Crisis

College Debt Survey: What It Means

The disconnect between early expectations about student loan debt and the eventual reality could mean a few things:

1. **Students are prone to short-term thinking**

   This is understandable. From high school on, students face a series of short-term hurdles: graduating from high school, getting into a college, finding financing for college and then renewing that financing for each year of college. Forcing students to focus on these short-term hurdles makes it easy for them to ignore the long-term burden that the debt they are taking on eventually becomes.

2. **Students may be overlooking graduate school**

   Often, it is only when they have progressed down the path toward an undergraduate degree that students realize their chosen career will require an advanced degree as well. This can add significantly to the cost; but having started to invest in their education already, many students feel compelled to continue.

3. **The cost of student loan debt may compete with saving for retirement**

   The survey found that, among people who expect to have student loan debt, 22.7% - more than one in five - expect repaying that debt will force them to save less for retirement. In other words, a 20-year-old taking on student loan debt today could still be feeling the impact of that decision 60 years later.

4. **Student loan debt is also delaying home ownership**

   Another long-term impact of student loan debt is that it may take longer for young adults to be in a position to buy a home.

   Fully 16.6% of respondents to the MoneyRates survey who expected to have student loan debt said they would have to sacrifice spending on housing as a result.

This helps explain the reduced level of millennial home ownership. According to the Urban League, 37% of millennials who have reached the ages of 25 to 34 own homes. For baby boomers and members of generation X, home ownership reached 45% at the same age.

> The survey results suggest that, in many cases, students are making decisions that will affect their lifelong finances before they even realize it.

Even so, there are things people can do to make the best of a tough situation, both by managing their student loan debt responsibly and working to minimize the amount of debt they take on in the first place.

>> Not Paying Student Loans - Here's What to Expect

Managing Student Loan Debt: Taking Control

Taking on student loan debt may be a choice you feel compelled to make - or you may already have taken on that debt. If having student loan debt is inevitable, here are some things you can do to take control of the situation:

1. Review payment schedules before you borrow

A lender should give you a schedule of what your monthly payments will be before you commit to a loan. This lets you see how big a bite repaying that loan will take out of your budget - and for how many years.

This schedule should also show you how much total interest you will pay on the loan before it is repaid. That interest expense represents the amount over and above what you borrow that you're expected to repay.

Seeing all this may help you recognize the full burden your borrowing will represent.

2. Don't approach debt from year to year

One reason so many people seem to be taken surprise by how much student loan debt they owe may be that they borrow year by year but then have to pay off the combined total of those loans once they graduate.

Even though you have to take out a different loan each year, think ahead to what your student loan debt is totaling. For example, if you are in a four-year program, take the repayment schedule for a first-year loan and multiply all of the numbers by four.

This can give you a better idea from the start how much debt you'll be taking on overall as opposed to being surprised by it at the end.

3. Set realistic wage expectations

Once you can reasonably estimate how much student loan debt it will take for you to get your degree, check out wages in your chosen field to make sure you'll be able to afford the payments.

People often pursue college with the idea that a degree will allow them to earn more money in the long run. That's true in general, but a big problem with some student loan debt is a mismatch between how much a specific career pays and how much a student paid to get their degree.

4. Understand payment management programs

Federally backed student loans often have programs that limit your repayments to a certain percentage of your wages. You have to apply for these programs, so being aware of them could give you a helpful option if you find it difficult to make your full payments once you graduate.

Keep in mind, though, that reducing your payments is likely to mean it will take longer to repay your loan. Taking longer to repay your loan means more years of paying interest. The same may apply to refinancing programs.

As a rule of thumb, assume that anything that reduces your immediate payments by extending the repayment period is likely to cost you more in the long run.

>> How to Manage Your Personal Loan Payments

Minimizing Student Loan Debt

Managing your debt responsibly is good; reducing the amount of debt you take on in the first place is even better. Here are some ways to do that:

Take AP classes in high school

Advanced Placement classes can help you to start college with some credits already under your belt - and that can reduce your college bill.

Taking the time to earn AP credit in high school can be an investment that pays off in college and beyond if it saves you money on college tuition and allows you to borrow less. Just remember to check whether the college of your choice accepts your AP credits.

Take a two-plus-two approach

Two-year community colleges are generally cheaper than four-year programs. You may be able to save some money by attending two years at a lower-cost school and then transferring to the school from which you want to get your eventual degree.

Before you start down this road, though, check whether the four-year college you hope to eventually attend will accept credits from the two-year school you plan to go to in the meantime.

Consider a gap year

Taking a year off to work can give you a head start toward paying your college tuition - and thus reduce the amount you have to borrow.

The money you earn toward tuition may be worth more than it seems. If it reduces your need to borrow, it will also save you the interest on that amount.

Use a student loan calculator to figure out how much you could reduce your eventual loan cost by earning money toward tuition before starting college. This could give you the incentive you need to delay pursuing your degree for a year.

Research career prospects

Perhaps the worst type of situation is when students earn a degree only to find out it isn't enough to qualify them for a job in their chosen field. This may cause them to go back to school to pursue the right degree, resulting in more debt.

Before you start a college program, look at want ads and information from the Bureau of Labor Statistics to see whether that degree qualifies you for the career you have in mind. This may also give you a feel for how much demand there is for that profession in your area.

About the Survey

MoneyRates.com surveyed over 700 Americans about how much student loan debt they either already had or expected to have. The poll was focused on four age groups: 18 to 24, 25 to 34, 35 to 44, and 44 to 54.

The poll also asked what people expected to spend less on in order to repay their student loan debt. Among the 70% of respondents who already had or expected to have student loan debt, the most common area of spending they expected to have to sacrifice on as a result was entertainment, which was cited 27.7% of the time. Retirement saving was next at 22.7%, followed by housing at 16.6%, transportation at 12.8% and healthcare at 7.6%.